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Current Support Brief

SOVIET LIGHT INDUSTRY PLANTS
TEST CONSUMER SOVEREIGNTY



CIA/RR CB 64-56

September 1964

CENTRAL INTELLIGENCE AGENCY

Office of Research and Reports

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SOVIET LIGHT INDUSTRY PLANTS
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The effectiveness of market forces in regulating the production and distribution of consumer goods in the USSR is being tested currently at two large clothing plants -- "Bol'shevika" in Moscow and "Mayak" in Gor'kiy. At these plants, managers find themselves responsible no longer to planning and administrative authorities but directly to the Soviet consumer, with profits from sales to "satisfied customers" their only criterion of success. It is not surprising that some experimentation in control is under way, given the worsening of the balance of demand and supply in the consumer sector since about 1960. Official sanction of an experiment so bold in its likeness to Western economic forms raises the question about possible decentralization in the consumer sector and how this might affect the politically determined plans for heavy industry and defense.

1. The Experiment

The clothing plants chosen for the experiment, "Bol'shevika" in Moscow and "Mayak" in Gor'kiy, are important producers of factory-made clothing. The Moscow plant, employing more than 4,000 persons, formerly produced 2,600 men's suits per day plus an equal number of slacks. The Gor'kiy plant specializes in women's and children's clothing.

Plant managers now are free to decide what styles to produce and how to produce them, whereas these decisions normally are made by central planners. In being released, however, managers have sacrificed the accustomed guidance that had been implicit in their plans and thus have assumed the burden of setting a new course in an uncharted sea. The criterion for success in this venture is profit earned, and that in turn will depend on customer satisfaction in the retail markets. In this respect the test is a response to Khrushchev's admonition to officials of light industry at the 22d Party Congress to produce "not for the stores but for the consumers."

Certain broad principles for operation were agreed on by central authorities and local managers in setting up the test. 1/ Except for continued state determination of investment, all planning is to be in the hands of the factory. Plants are to produce at or near capacity in order not to violate the "planning principle." Production plans are to be geared strictly to orders from the retail stores participating

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in the experiment, the orders being written into legally binding contracts which specify delivery dates, assortment, style, colors, sizes, packaging, and labeling as well as arrangements for the transfer and storage of the goods. Prices are set by mutual agreement of producers and retailers using established price lists as basic guides and adjusting them to reflect additional costs of technical innovation, style changes, and quality improvements; subsequently prices are to be revised in response to consumer acceptance. In case of disagreement between plant managers and retailers, the regional authority, or sovnarkhoz, will arbitrate. In view of the ties between prices and costs (and historic prices) it remains a question, however, how far prices will be permitted to rise if demand proves great or to fall if goods move slowly. It is clearly stated, however, that an unpopular item is to be dropped altogether from production. Under terms of the experiment, management now purchases its supplies of fabrics, the principal material input, from samples submitted by suppliers throughout the country, either locally or from other republics. Wages, fixed by the management, are paid out of income from retail sales. From the profits earned, bonuses are set for salaried employees, engineers, technicians, and management staff, whereas for cutters, seamstresses, and other production workers, who operate on a piecework rate, bonuses of up to 40 percent of the basic rate are paid for exemplary work. For its investment funds and working capital, management relies on Gosbank for credit.

To aid the plant manager, three deputy jobs have been set up: an economic director in charge of costs and prices, a commercial director in charge of contracts with suppliers and retailers, and a technical director in charge of production and maintenance. Trial-and-error methods will be needed for pricing new commodities so as to balance effective demand and supply in the market place and to insure a profitable return to the plant. New procedures are needed for direct purchases of supplies according to specification to replace the customary receipt according to central allocation. For technical innovations, however, plants will borrow from abroad. Indeed, the officially stated policy for the entire industry is to adapt Western technology to large-scale production of clothing to satisfy domestic needs as rapidly as possible.

2. Early Developments

The experiment began officially on 1 July 1964, but much planning and preparation had been done before that time. 2/ Thus the Gor'kiy

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plant is prepared to turn out an assortment of 265 models, half of which are new. Technical innovations already introduced into the reorganized production lines include basting, a step that had been sacrificed earlier for the sake of higher "productivity," and the use of steam pressing, virtually unknown in the Soviet clothing industry. Research in cost analysis and in production techniques has been instituted. Study courses in applied economics are scheduled for workers at all levels -- engineers and workers alike. The plant has set up a section to make quality clothes for the "nonstandard figure," an effort for which there is obvious need.

Certain problem areas, such as the shortage of fashion designers, have already emerged. The Gor'kiy plant has no trained designers, and nowhere in the USSR is there training in this fundamental skill. Promises of the officials of retail stores to support the experiment are not being fully honored. Studies of consumer demand on which orders are to be based have not materialized, yet the plant cannot operate at capacity without these orders. Another complaint is that only the best retail stores should have been allowed to participate in the experiment. As it is, managers anticipate shortages of storage facilities and poor merchandising techniques in retailing the goods. Worst of all, the initial enthusiasm of some who helped to launch the project already has begun to wane. According to one report, "The leaders of the sovnarkhoz promised all this [support] to the sewing workers, even drew up measures, but have not kept their word." 3/

3. Prospects for Adoption

This experiment in consumer sovereignty, if it is successful, could signal a trend toward some relaxation of control in planning and administration and a greater reliance on market forces to equalize effective demand and supply, although it is yet too early to predict any such outcome. Certainly officials have been much concerned about these imbalances and are searching for new regulatory measures. The problem is a chronic one of poor quality and assortment in production and ineffectiveness in distribution. In short, traditional Soviet methods of planning the output and distribution of these goods are working poorly at the present output level, and consumer rejection of some types of merchandise is causing a backup of goods in warehouses and distribution channels.

The extent to which the leadership and the theoreticians have explored consumer economic problems has come to light as a result of the announcement of the experiment. Professor Ye. G. Liberman, famed for his 1962 proposal that expounds profitability and greater autonomy at enterprise level as keys to greater efficiency, has shed considerable light on the problem. In a recent interview with a Yugoslav newsman, 4/ Liberman reported that a special Commission of the Academy of Sciences is studying "the new way of planning and material stimulation in the economy including the use of market forces as a regulator." He emphasized the need for experimentation in order to evaluate new ideas.

The original Liberman proposal, which earlier had been referred to the Academy of Sciences for further study, did not venture nearly so far in decentralization, however, as has this experiment. Using profitability as the criterion of success, Liberman then held that enterprise managers rather than planners should make decisions about wages, productivity, technology, and materials inputs, whereas the center would retain control over the plans for output, assortment, delivery schedules, and to some degree the setting of price. 5/

Referring to the present experiment in profitability, Liberman commented in the interview, "I think that next year it [the system being tested] will be extended over the whole of Soviet light industry." Understandably, Professor Liberman is enthusiastic about the experiment because of its relation to his original proposal. His prediction about the immediate adoption of the profitability principle throughout light industry, however, is highly questionable. If the leadership should choose to adopt the profitability principle, as Liberman predicts they will, this clearly would be a move away from centralized control and toward some shade of market socialism; if they should choose otherwise, the present experiment may turn out to be mainly an academic exercise. The reaction of the leadership to the experiment depends largely on the criteria that are used to evaluate it. The two test firms are using the criterion of profit during the test period, but this logically cannot be the only criterion of the judges of the experiment. Many and conflicting criteria may be used, such as physical production, gross value of output, cost reduction, and reduction in inventories at the retail level.

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Ultimately the issue will rest not on whether proposed economic measures are workable but on whether they are politically acceptable. It is the Party that chooses the policy changes to be instituted, and, regardless of recommendations by the academicians, it is difficult to imagine adoption of such a controversial measure as market control without an ideological struggle. Moreover, there is the question of whether such a change could long be confined to light industry without becoming a threat to the ideological heartland of Marxian dogma -- heavy industry. Although such an eventuality may not necessarily follow, it seems likely that demands of light industry left free to guidance by market principles might sooner or later conflict with Moscow's politically determined plans for heavy industry and defense.

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p. cc4-cc6. U.
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Soviet Industry, 6 Nov 62. C.

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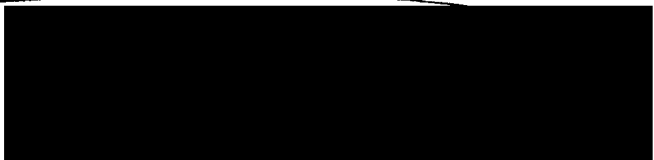
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